

Message Text

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14-L
ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 EB-07 H-02 INR-07 L-03

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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 5902

C O N F I D E N T I A L JAKARTA 9941

EO 11652: GDS
TAGS: ENRG ID
SUBJECT: GOI-OIL COMPANY NEGOTIATIONS

REF: JAKARTA 9624

1. MEETINGS WITH PRODUCTION-SHARING CONTRACTORS CONTINUE AT FRANTIC PACE. CHECK OF COMPANIES INDICATES UNION IS NOW IN BASIC AGREEMENT WITH GOI AND EXPECTS TO SIGN PERHAPS TOMORROW, JULY 30. IAPCO HAS HELD FINAL MEETING JULY 28 WITH HARYONO AND IS ALSO CLOSE TO AGREEMENT. ARCO REPORTS AGREEMENT ON SOME POINTS BUT IS NEGOTIATIONS WITH GOI IN DAILY MEETINGS ON FINER POINTS RELATING TO DEPRECIATION SCHEDULE. THESE COMPANIES "ARE NOT DANCING IN THE STREET" AS ONE REPRESENTATIVE PUT IT, BUT THEY BELIEVE IT IS IN THEIR BEST LONG-RANGE INTERESTS TO REACH AGREEMENT WITH GOI. PETROMER TREND, WHICH WAS CLASSIFIED AS GROUP TWO COMPANY ANDHENCE SUBJECT TO 14-YEAR DEPRECIATION SCHEDULE, HAS BEEN ARGUING FOR RECLASSIFICATION TWO NON-US COMPANIES, TOTAL AND JAPEX, ARE REPORTEDLY TAKING TOUGH STANCE IN NEGOTIATIONS. JAPEX PRESIDENT ARRIVED IN JAKARTA EVENING OF JULY 28; JAPANESE EMBASSY REPORTS JAPEX PREPARED TO TAKE "STRONG POSITION" IN TALKS.

2. SMALLER PRODUCERS HAVE ALSO BEEN GIVEN GOI'S FINAL TERMS OF REFERENCE AND ASKED TO SUBMIT DATA ON RESERVES
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AND EXPENDITURES. IRONICALLY, AT LEAST TWO COMPANIES

WOULD ACTUALLY BENEFIT FROM GOVERNMENT'S REVISED GUIDELINES. BOTH HUFFCO (ROY M. HUFFINGTON CO.) AND ASSOCIATED AUSTRALIAN RESOURCES REPORT THAT ALLOWANCE FOR "COST RECOVERY" WHICH AVERAGES ABOUT \$5.00/BARREL UNDER PRESENT SYSTEM WOULD ZOOM TO OVER \$10/BARREL UNDER NEW PRESENT SYSTEM DURING FIRST TWO YEARS OF SCHEDULE. THIS IS RESULT OF GOI'S GUIDELINES WHICH ALLOWS UN-LIMITED EXPENSING IN YEAR OF EXPENDITURE FOR NON-CAPITAL COSTS. GOVERNMENT WAS AWARE THAT THIS SITUATION COULD DEVELOP WHEN COST RECOVERY SYSTEM WAS BEING REVISED; ACCORDING TO PRICE WATERHOUSE ADVISORS, SENIOR OFFICIALS IN BAPPENAS FELT THIS WAS PRIVE GOI WOULD HAVE TO PAY IN ORDER TO: A) ADOPT "US SYSTEM" OF GENERALLT ACCEPTED ACCOUNTING PRINCIPLES AND B) HAVE CONSISTENT APPROACH WITH ALL COMPANIES.

3. POSSIBLE SCENARIO AT THIS POINT IS THAT GOI WILL HAVE AGREEMENT WITH SOME, BUT NOT ALL, COMPANIES BY JULY 31 THUS CAUSING NEGOTIATIONS TO CONTINUE OVER INTO NEXT WEEK.
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